

Blue Cross and Blue Shield of Utah in Salt Lake City, Utah

Report No. 10-66-91-028

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Our audit of Blue Cross and Blue Shield of Utah (BCBS of Utah) covered administrative expenses charged to the FEHBP for 1986 through 1990 and health benefits payments made between January 1, 1990 and May 31, 1991. We conducted this audit at BCBS of Utah's headquarters in Salt Lake City, Utah. For the last full contract year we audited (1990), the plan administered benefits for about 18,200 FEHBP subscribers in the state of Utah, which constituted four percent of the plan's total enrollees that year.

Specifically, our examination included the plan's BCBS FEHBP accounting statements for the years audited; a review of the plan's claims processing systems; and a study of its policies, procedures, and allocation methods for supplementary payments, refunds and uncashed checks. We also made an evaluation of the plan's compliance with laws and regulations governing the FEHBP. As a result of the audit, we questioned costs for inappropriate charges to the FEHBP totaling \$1,578,669. Additionally, we noted that the plan's fraud control activities were weak and ineffective, thus increasing the likelihood that FEHBP resources could be exposed to fraud. We recommended that the OPM contracting officer require the plan to implement stronger fraud detection procedures as well as develop and update mission statements for all cost centers, the latter recommendation having been proposed by the BCBS Association itself several years earlier.

Listed below by audit category are several of the major findings resulting from this audit.

Questioned Costs to FEHBP Total \$1,578,669

Health Benefits

During the 17-month period covered in our review of health benefit payments, BCBS of Utah paid 1.1 million claims in the amount of \$56.7 million. To test BCBS of Utah's compliance with FEHBP health benefit provisions, we examined a random sample of claims and reviewed selected claims for potential duplicate payments, noncoordinated benefit claims, and other noncovered benefits. We also examined refund recoveries from FEHBP subscribers to see how promptly the plan was crediting the FEHBP for these recoveries. As a result of our review, we identified \$26,074 in erroneous and unnecessary charges to the FEHBP and determined that no refund recoveries received by the plan had been credited to the FEHBP at the time of our audit.

Administrative Expenses

When our auditors examined administrative expenses charged to the FEHBP by BCBS of Utah, they determined that there were several instances of unreasonable or improper expenses charged to the FEHBP that resulted in questioned costs of \$1,552,595. The following are two examples of findings relating to administrative costs affecting the FEHBP.

Gain on sale of home office building: Our review showed that the FEHBP was not credited with its proportional share of the gain on the sale of the plan's home office building as required by federal regulation. In December 1986, the plan sold its home office under a sale and leaseback arrangement and repurchased the property in December 1987. The repurchase of the property triggered a gain on BCBS of Utah's own books. However, the proportion of this gain to which the FEHBP was entitled was not allocated. We noted that the plan realized a gain of \$3,252,933 on the transaction, of which \$1,567,623 represented depreciation that had been charged to all lines of business by the plan. Taking into account this depreciation, we calculated FEHBP's share of the gain at \$144,544. While the BCBS Association, acting on behalf of the plan, initially took issue with our position regarding the accounting of the transactions, the matter has been subsequently resolved to the satisfaction of all parties, and the amount questioned has been recovered by the FEHBP.

Administrative cost adjustments: From 1987 through 1990, the plan significantly increased the FEHBP's share of administrative costs by making unsupported, manual out-of-system adjustments. Our review of these out-of-system adjustments showed that plan personnel routinely increased FEHBP costs without adequate documentation or justification. We reviewed time sheets for employees in many of the adjusted cost centers and found that they did not support the additional costs allocated to the FEHBP. After issuance of our draft report, our auditors first referred this issue to our OIG investigators, who were able to identify additional questionable adjustments made by the plan's employees. We then referred our findings to the U.S. Attorney's office for review.

Negotiated Settlement

The U.S. Attorney's office for the District of Columbia negotiated a settlement with BCBS of Utah in the amount of \$2.2 million, although the plan continued to disagree with the merits of some of our audit findings. As a result of the settlement agreement \$1,665,000 was returned to the FEHBP and \$535,000 for damages was paid to the U.S. Treasury. (See also Appendix I on page 31 as well as page 22 of the Investigative Activities section of this report.)

U.S. Attorney's Office Reaches \$2.2 Million Settlement with Carrier